

PREINVESTMENT PROGRAM FOR RECONSTRUCTION AND TRANSFORMATION

(HO-0178)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Secretaría de Finanzas [Finance Department] (SEFIN) through the Unidad de Preinversión de la Dirección General de Inversión Pública [Preinvestment Unit of the General Directorate for Public Investment] (DIGIP)	
Amount and source:	IDB (FSO):	US\$12 million
	Local:	US\$ 3 million
	Total:	US\$15 million
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Commitment period:	3 years
	Disbursement period:	4 years
	Interest rate:	1% for the first 10 years, 2% thereafter
	Inspection and supervision:	1% of the loan
	Credit fee:	0.5% of the undisbursed balance
Objectives:	The objective of the program is to promote effective and efficient public investment so as to increase the number of projects suitable for financing and improve the quality of processes in the public investment system.	
Description:	The program will consist of two components: (i) a component for the financing of preinvestment studies; and (ii) an institutional strengthening component. This latter component will include consultancies to provide support to the Preinvestment Unit and beneficiary entities.	
The Bank's country and sector strategy:	The Bank's strategy for Honduras centers on the following objectives: (i) to provide support for the formulation of the National Master Plan for Reconstruction and Transformation (PMRTN) and the detailed investment program under that plan; (ii) to promote international cooperation for the financing of reconstruction through the Consultative Group; and (iii) to concentrate the limited concessional resources on social programs for the poor and on the reconstruction	

program, particularly in the areas of water supply, sewerage, housing, and roads. The many tasks to be performed in the reconstruction process will require numerous sector studies, designs, and project evaluations. Such work is costly and highly specialized but the ministries and other government agencies involved do not have sufficient resources for it. A preinvestment program with clear rules of application would be the most appropriate mechanism for hiring consulting services to perform this work on an ad hoc basis.

Environmental and social review:

The program's environmental feasibility strategy is to ensure that preinvestment studies and institutional strengthening activities address the relevant environmental issues. Paragraph 4.4 of the loan proposal explains the procedures, principles, and institutional strengthening activities designed for this purpose. These will be included in the program Operating Regulations.

Benefits:

The direct impact of the program will produce short- and medium-term benefits, helping to strengthen the public investment system as part of the PMRTN strategy. This impact will be felt when the projects covered by the studies to be financed under this program are executed, benefiting Honduran society through the national reconstruction and transformation process.

Risks:

The risks that can be identified in connection with program execution are mainly as follows: (i) the beneficiary entities or the Preinvestment Unit may not have or retain staff trained during program execution to prepare proper project profiles and terms of reference and to supervise the consultancies; (ii) the activities of these entities and the Preinvestment Unit may not be properly coordinated; (iii) the government may not have established priorities, which could hinder or delay the selection of studies for financing under the program.

To mitigate these potential risks, the Preinvestment Unit will be strengthened with at least six professionals specialized in preinvestment; and training programs are being conducted on the project study cycle for the Preinvestment Unit and beneficiary entities. In addition, the participation agreements between SEFIN and the beneficiary entities will include the obligation to be sufficiently staffed with trained technical personnel to perform the work required. In addition, the financing will cover training throughout the four years of program execution.

Special contractual conditions:

Conditions precedent to the first disbursement:

1. creation of a special account for program resources (paragraph 2.7);

2. entry into force of legal provisions establishing the Preinvestment Unit within DIGIP, and the increase in staffing needed in that unit to execute the program (paragraph 3.3);
3. signature of a participation agreement between SEFIN and at least one beneficiary entity, based on a model previously agreed upon with the Bank (paragraph 3.5).
4. presentation of program Operating Regulations acceptable to the Bank (paragraph 3.8);

Poverty-targeting and social sector classification:

This operation does not qualify as a poverty-targeted investment.

Exceptions to Bank policy:

None.

Procurement:

International competitive bidding will be conducted for the procurement of goods in amounts of US\$250,000 or more and consulting services in amounts of US\$200,000 or more.